



Labor-Spurning Tendency of Big Firms

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Notes by M. Gaffney, orig. S86

Fortune Magazine publishes annually a summary of data from the largest 500 industrial firms in the United States, with size defined by sales. Utilities and financial companies are excluded. This group is known colloquially as the "Fortune 500". The following data are for 1979.

Table 1: Employees per \$m of Net Worth and Total Assets

Size Group	Employees/Net Worth		Employees/Total Assets
	How ranked:		How ranked:
	by NW	by NI	by TA
Top 10	22.0	19.3	10.8
Next 490	37.2	37.7	17.2
Middle 10	57.8	40.5	17.9
Bottom 10	93.5	58.1	40.3

NW = Net Worth; NI = Net Income; TA = Total Assets

The data show that the bigger firms, especially the top 10, are much less labor-using than smaller firms. (The top 10 are so much larger than the average Fortune 500 firm that they possess 25.2% of all the Net Worth of the 500.)

For a study in much more detail, see the chapter "Falling Property Tax Rates and Rising Concentration," on reserve.

In passing, but without distracting your attention from the major point, above, note that the method of ranking affects the outcome. This principle known as "regression fallacy". If we had ranked the firms by Employees, rather than Net Worth, the principle would have acted to weaken the findings. Ranking by NI (Net Income) is more neutral in this regard (but not completely so, because NI is related to NW). Statisticians you must watch like a hawk.

Why is the first column more extreme than the last one? Because smaller firms use their credit more heavily than larger ones, as shown in Table 2.

Table 2: Net Worth as share of Total Assets

Size Group	Ranked by NW	Ranked by TA
Top 10	.49	.49
Next 490	.46	.47
Middle 10	.47	.46
Bottom 10	.33	.46

Table 2 illustrates the tendency of smaller firms to use their credit harder. The first column is biased to exaggerate the finding; the second column to offset it. Comparing the two, you see there really is a finding.